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BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY OF ALPHONSO J. VARNER

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 98-378-C

SEPTEMBER 24, 1998

S. C. PUBLIC SERVICE COMMISSION  
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UTILITIES DEPARTMENT

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH  
BELLSOUTH TELECOMMUNICATIONS, INC.

A. My name is Alphonso J. Varner. I am employed by BellSouth as Senior Director  
for Regulatory for the nine state BellSouth region. My business address is 675 West  
Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND  
EXPERIENCE.

A. I graduated from Florida State University in 1972 with a Bachelor of Engineering  
Science degree in systems design engineering. I immediately joined Southern Bell  
in the division of revenues organization with the responsibility for preparation of all  
Florida investment separations studies for division of revenues and for reviewing  
interstate settlements. Subsequently, I accepted an assignment in the rates and  
tariffs organization with responsibilities for administering selected rates and tariffs  
including preparation of tariff filings. In January 1994, I was appointed Senior  
Director of Pricing for the nine state region. I was named Senior Director for  
Regulatory Policy and Planning in August 1994, and I accepted my current position

as Senior Director of Regulatory in April 1997.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony in this proceeding is to explain why it is necessary to have a contract service arrangement (CSA) - specific avoided cost discount at this time and to provide the Commission with information to assist in the establishment of reasonable and non-discriminatory limitations on the resale of BellSouth's contract service arrangements (CSAs) by competing local exchange carriers (CLECs). The testimony of Mr. Walter Reid addresses the methodology and results of BellSouth's study that calculates the appropriate CSA-specific discount that should be applied when BellSouth's CSAs are resold by CLECs.

Q. WHAT IS A CSA?

A. A CSA is an individually negotiated arrangement between BellSouth and an end user whose local service is subject to competition. A CSA is a type of Special Service Arrangement involving customer specific pricing of an existing tariffed service, provided at a discount, which must be filed with and approved by the Public Service Commission of South Carolina (Commission). Another type of Special Service Arrangement is a Special Assembly. A Special Assembly involves the development of a new service that is not currently available through an existing tariff offering. Because Special Assembly arrangements are not used as a response to competitive situations, the services provided under a Special Assembly contract are provided at rates that are not discounted. A Special Assembly arrangement is

1 available for resale by CLECs at the 14.8% resale discount, even if the Special  
2 Assembly is part of a CSA.

3  
4 Q. WHY DOES BELL SOUTH NEGOTIATE CSAs?

5  
6 A. CSAs provide BellSouth with the ability to respond to competitive situations  
7 through the discounting of its tariffed rates. BellSouth's General Subscriber  
8 Services Tariff (GSST) contains products and services that are generally available to  
9 all end users at the same rates, terms and conditions. BellSouth's tariff contains the  
10 following provisions for use in responding to competitive situations: "When  
11 economically practicable, customer specific arrangements may be furnished in lieu  
12 of existing tariff offerings provided there is reasonable potential for uneconomic  
13 bypass of the Company's services." General Subscriber Service Tariff § A5.6.1.  
14 The tariff further provides that "uneconomic bypass occurs when an alternative  
15 service arrangement is utilized, in lieu of the Company's services, at prices below  
16 the Company's rates but above the Company's incremental costs." Typically, a  
17 CSA would be offered to a high volume user in South Carolina seeking services  
18 such as ISDN service or fiber optic connections, which are subject to competition.  
19 General tariff offerings are available for purchase at the will of the end user. In  
20 contrast, CSAs only exist after the customer enters into a contractual agreement  
21 with BellSouth. CSAs are created for a customer's specific situation and are,  
22 therefore, not generally applicable to other end users.

23  
24 Q. WHAT ARE SOME OTHER ANALOGUES TO CSAs IN BUSINESS?

1 A. Most businesses that offer high volume services use a special contract much like  
 2 BellSouth's CSA. It is simply a contract with a specific customer. Responses to  
 3 Requests for Proposals (RFPs) are analogues to CSAs. In addition to any  
 4 telecommunications provider having the ability to offer specific arrangements to the  
 5 customer using BellSouth's existing tariffs, they also have the option to offer CSAs  
 6 for resale. Offering CSAs for resale gives CLECs, and other telecommunications  
 7 providers, an alternative to constructing or packaging the tariffed services  
 8 themselves.

9  
 10 Q. WHAT DOES THE ACT REQUIRE AS IT RELATES TO THE  
 11 DETERMINATION OF WHOLESALE RATES TO BE CHARGED BY  
 12 BELL SOUTH?

13  
 14 A. Section 252(d)(3) of the Act states: "For the purposes of section 251(c)(4), a State  
 15 commission shall determine wholesale rates on the basis of retail rates charged to  
 16 subscribers for the telecommunications service requested, excluding the portion  
 17 thereof attributable to any marketing, billing, collection, and other costs that will be  
 18 avoided by the local exchange carrier." The Commission's establishment of  
 19 BellSouth's wholesale discount is in compliance with this requirement. Prices for  
 20 most retail services included recovery of costs for retail marketing and billing  
 21 activities. Because BellSouth does not need to perform certain functions when  
 22 CLECs resell retail services, such as marketing, and end user billing and collection  
 23 activities, the costs for these functions are removed from the rates the CLEC pays  
 24 BellSouth for these resold services. These removed or "avoided" costs equate to the  
 25 resale discount of 14.8% in South Carolina.

1  
2 Q. WHAT ACTION HAS THE COMMISSION TAKEN TO IMPLEMENT THIS  
3 PROVISION OF THE ACT?  
4

5 A. In Docket No. 96-358-C, the Commission established a general wholesale discount  
6 of 14.8%. The Commission further determined in this same docket that CSAs,  
7 although available for resale, should not receive a further discount below the CSA  
8 contract rate, recognizing that CSAs are already discounted. In Docket No. 97-101-  
9 C, the Commission approved BellSouth's Statement of Generally Available Terms  
10 & Conditions (SGAT) which specifies the appropriate terms and conditions of  
11 resale.  
12

13 Q. WHAT ACTION DID THE FEDERAL COMMUNICATIONS COMMISSION  
14 (FCC) TAKE WITH RESPECT TO BELL SOUTH'S APPLICATION FOR  
15 AUTHORITY TO PROVIDE IN-REGION INTERLATA SERVICE?  
16

17 A. Following approval of its SGAT, BellSouth filed an application with the FCC for  
18 authority to provide in-region interLATA service. In its Memorandum Opinion and  
19 Order 97-418, released on December 24, 1997, the FCC denied BellSouth's  
20 application. One of the reasons cited for its denial was BellSouth's failure to offer  
21 CSAs for resale at a wholesale discount.  
22

23 Q. DID THE FCC STATE THAT CSAs MUST BE AVAILABLE FOR RESALE AT  
24 BELL SOUTH'S GENERAL DISCOUNT OF 14.8%?  
25

1 A. No. The FCC indicated that it believed it would be feasible, and sufficiently  
2 accurate to calculate a specific discount rate applicable to CSAs. What the FCC  
3 objected to was an effective general exemption of CSAs from the wholesale  
4 discount requirement. The FCC came to the conclusion that the absence of offering  
5 CSAs for resale at a discount was in essence a violation of its rule 51.613 covering  
6 the restrictions on resale.

7  
8 Q. DOES BELLSOUTH AGREE WITH THE FCC?  
9

10 A. No. BellSouth continues to believe that the Commission's previous rulings  
11 regarding the treatment of CSAs fully comport with the Act. However, it is clear  
12 that the FCC will not approve BellSouth's application for interLATA relief in South  
13 Carolina unless BellSouth agrees to the resale of CSAs at a discount. In meetings  
14 with the FCC, it became very apparent to BellSouth that the FCC would not change  
15 its position on this matter. As a result of the FCC's position, BellSouth determined  
16 it would be more advantageous to seek a CSA-specific discount from the  
17 Commission than to pursue a prolonged court battle with the FCC on this issue.  
18 Therefore, BellSouth is proposing in this proceeding that the Commission approve a  
19 CSA-specific resale discount, along with specific limitations on the resale of CSAs  
20 by CLECs .  
21

22 Q. DO CSAs TYPICALLY INCLUDE TERMINATION LIABILITY CLAUSES?  
23

24 A. Yes. Termination liability clauses are included in CSAs, as they are in most  
25 contractual arrangements, to deter early termination prior the recovery of the

company's up-front expenditures and investments. Termination liability clauses have been part of the terms and conditions of BellSouth's tariffs for many years, especially with respect to the private line services that are typically the services involved in BellSouth's CSAs. This term or condition, which has been approved by the Commission as part of many service offerings, is applicable when a customer agrees to subscribe to a service for a period, typically 24 to 60 months, in return for a discounted rate that is less than the month-to-month rate indicated in the tariff. As part of this commitment/contract, termination liabilities are appropriate, but are charged only if the customer discontinues this service prior to the fulfillment of the contract period. If the customer wishes to receive a rate lower than that which is quoted in the tariff, and a competitive threat exists, BellSouth may negotiate a CSA at a lower rate. The rate is then developed based on that customer's network arrangement and must cover BellSouth's cost to provide the service. If the customer accepts the CSA rate, they would sign a contract for a specified period as commitment for the lower than tariffed rate.

Q. WHAT LIMITATIONS DOES BELL SOUTH PROPOSE REGARDING THE APPLICATION OF TERMINATION LIABILITY CHARGES WHEN A CLEC RESELLS A CSA?

A. If a customer assigns the CSA to a CLEC and the CLEC assumes all of the requirements of the contract, BellSouth proposes that no termination charges apply at the time of assignment. The CLEC can take action such as adding or changing services that are provided for by the terms of the contract. The CLEC is also free to provide any other services subject to its agreement outside of the CSA. Of course, if

1 the CLEC terminates the CSA early or does not comply with the terms and  
 2 conditions of the CSA, the liability as stated in the contract should apply.

3 Customers covered by a CSA who desire to obtain services through the use of a  
 4 CLEC's facilities and/or unbundled network elements, are, in fact, terminating the  
 5 CSA and should be bound by the termination liabilities contained in the contract.  
 6 Some CLECs have requested that they be allowed to resell CSAs through the use of  
 7 unbundled network elements (UNEs). Because the CSA is comprised of complete  
 8 services and not UNEs, breaking these services down into their individual network  
 9 elements can only be done if the CSA is terminated.

10  
 11 Q. WHAT LIMITATIONS DOES BELLSOUTH PROPOSE ON THE RESALE OF  
 12 CSAs BY CLECs TO SIMILIARLY SITUATED CUSTOMERS?

13  
 14 A. To comply with non-discrimination requirements, BellSouth proposes that CLECs  
 15 be able to offer existing CSAs to other customers that are similarly situated to the  
 16 customer for which the CSA was developed. Customers shall be deemed to be  
 17 similarly situated when quantity of use; time of use; manner of use; and costs of  
 18 rendering service are the same.

19  
 20 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

21  
 22 A. While BellSouth supports the Commission's previous ruling that CSAs should not  
 23 be further discounted below the CSA rate, it is BellSouth's position that the  
 24 Commission's approval of a CSA-specific discount is a pre-requisite by the FCC for  
 25 BellSouth to provide in-region interLATA service. My testimony also outlines



1 specific limitations on the resale of CSAs that are reasonable and non-  
2 discriminatory as required by state and federal law. BellSouth requests the  
3 Commission approve its proposed CSA discount and determine that its proposed  
4 limitations on the resale of CSAs by CLECs are reasonable and non-discriminatory.

5  
6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

7  
8 A. Yes.

9 #134620

STATE OF SOUTH CAROLINA                    )  
                                                  )     CERTIFICATE OF SERVICE  
COUNTY OF RICHLAND                        )

The undersigned, Nyla M. Laney, hereby certifies that she is employed by the Legal Department for BellSouth Telecommunications, Inc. ("BellSouth") and that she has caused BellSouth Telecommunications, Inc.'s Direct Testimony of Alphonso J. Varner in Docket No. 98-378-C to be served by placing such in the care and custody of the United States Postal Service, with first-class postage affixed thereto and addressed to the following this September 24, 1998:

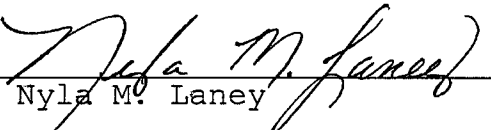
Elliott F. Elam, Jr., Esquire  
S. C. Department of Consumer Affairs  
2801 Devine Street  
Post Office Box 5757  
Columbia, South Carolina 29250-5757  
(Consumer Advocate)

F. David Butler, Esquire  
General Counsel  
S. C. Public Service Commission  
Post Office Box 11649  
Columbia, South Carolina 29211  
(PSC Staff)

Frank R. Ellerbe, III, Esquire  
Bonnie D. Shealy  
Post Office Box 944  
Columbia, South Carolina 29202  
(SCCTA)  
(SECCA)

Russell B. Shetterly, Esquire  
Haynsworth, Marion, McKay & Guerard, L.L.P.  
1201 Main Street, Suite 2400  
Columbia, South Carolina 29201  
(ACSI, d/b/a e.spire)

Theodore D. Riley, Esquire  
Haynsworth, Marion, McKay & Guerard, L.L.P.  
1201 Main Street, Suite 2400  
Columbia, South Carolina 29201  
(Knology of South Carolina)

  
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Nyla M. Laney